

# CRS Report for Congress

## Ukraine: Current Issues and U.S. Policy

Updated October 10, 2007

Steven Woehrel  
Specialist in European Affairs  
Foreign Affairs, Defense, and Trade Division



Prepared for Members and  
Committees of Congress

<b>Report Documentation Page</b>			<i>Form Approved OMB No. 0704-0188</i>	
<p>Public reporting burden for the collection of information is estimated to average 1 hour per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden, to Washington Headquarters Services, Directorate for Information Operations and Reports, 1215 Jefferson Davis Highway, Suite 1204, Arlington VA 22202-4302. Respondents should be aware that notwithstanding any other provision of law, no person shall be subject to a penalty for failing to comply with a collection of information if it does not display a currently valid OMB control number.</p>				
1. REPORT DATE <b>10 OCT 2007</b>	2. REPORT TYPE	3. DATES COVERED <b>00-00-2007 to 00-00-2007</b>		
4. TITLE AND SUBTITLE <b>Ukraine: Current Issues and U.S. Policy</b>		5a. CONTRACT NUMBER		
		5b. GRANT NUMBER		
		5c. PROGRAM ELEMENT NUMBER		
6. AUTHOR(S)		5d. PROJECT NUMBER		
		5e. TASK NUMBER		
		5f. WORK UNIT NUMBER		
7. PERFORMING ORGANIZATION NAME(S) AND ADDRESS(ES) <b>Congressional Research Service, The Library of Congress,101 Independence Ave, SE,Washington,DC,20540-7050</b>		8. PERFORMING ORGANIZATION REPORT NUMBER		
9. SPONSORING/MONITORING AGENCY NAME(S) AND ADDRESS(ES)		10. SPONSOR/MONITOR'S ACRONYM(S)		
		11. SPONSOR/MONITOR'S REPORT NUMBER(S)		
12. DISTRIBUTION/AVAILABILITY STATEMENT <b>Approved for public release; distribution unlimited</b>				
13. SUPPLEMENTARY NOTES				
14. ABSTRACT				
15. SUBJECT TERMS				
16. SECURITY CLASSIFICATION OF:			17. LIMITATION OF ABSTRACT <b>Same as Report (SAR)</b>	18. NUMBER OF PAGES <b>15</b>
a. REPORT <b>unclassified</b>	b. ABSTRACT <b>unclassified</b>	c. THIS PAGE <b>unclassified</b>		

# Ukraine: Current Issues and U.S. Policy

## Summary

In January 2005, Viktor Yushchenko became Ukraine's new President, after massive demonstrations helped to overturn the former regime's electoral fraud, in what has been dubbed the "Orange Revolution," after Yushchenko's campaign color. The "Orange Revolution" sparked a good deal of interest in Congress and elsewhere. Some hoped that Ukraine might finally embark on a path of comprehensive reforms and Euro-Atlantic integration after nearly 15 years of half-measures and false starts. However, infighting within his governing coalition hampered economic reforms and led to disillusionment among Orange Revolution supporters.

On March 26, 2006, Ukraine held parliamentary elections. The largest vote-getter in the elections was the Party of Regions, headed by Viktor Yanukovych, Yushchenko's opponent in the 2004 presidential vote. President Yushchenko reluctantly appointed Yanukovych as Prime Minister, and the Ukrainian parliament approved the new government on August 4, 2006. A power struggle soon developed between Yushchenko and Yanukovych. On April 2, 2007, Yushchenko issued a decree dissolving the parliament and calling new parliamentary elections. After a protracted political and legal struggle over the constitutionality of the decree, the two sides agreed to hold new parliamentary elections on September 30, 2007. Although the elections confirmed the Party of Regions as the largest party in the parliament, a strong performance by the party of former Prime Minister Yuliya Tymoshenko may lead to the return to power of the Orange Revolution parties.

After taking office as President, Yushchenko said that Ukraine would seek integration into the global economy and Euro-Atlantic institutions. Ukraine hopes to join the World Trade Organization (WTO) this year. In the longer term, Yushchenko seeks Ukrainian membership in the European Union and NATO. However, political conflict between Yushchenko and Yanukovych caused Ukraine's foreign policy to appear incoherent at times, with the president giving one set of signals and the government and parliament another. Yanukovych and the Party of Regions oppose NATO membership, are less eager to conduct reforms in pursuit of EU membership, and are more favorable to closer ties with Russia, especially in the economic sphere.

U.S. officials supported the "Orange Revolution" in Ukraine in late 2004 and early 2005, warning the former regime against trying to impose fraudulent election results, and hailing Yushchenko's ultimate victory. U.S. officials have remained upbeat about Ukraine's successes in some areas, such as adopting legislation needed for WTO membership and in improving media freedom, while acknowledging difficulties in others. Administration officials noted that Ukraine's September 2007 elections were largely conducted according to international standards. However, they warned that Ukraine still needs to resolve key constitutional disputes to establish a mature democracy. This report will be updated as needed.

## **Contents**

Background .....	1
Current Political Situation .....	3
Economic Situation .....	4
Ukraine's Foreign Policy .....	5
NATO .....	6
European Union .....	7
Russia .....	7
U.S. Policy .....	9
Congressional Response .....	11

# Ukraine: Current Issues and U.S. Policy

## Background

Ukraine, comparable in size and population to France, is a large, important, European state. The fact that it occupies the sensitive position between Russia and new NATO member states Poland, Slovakia, Hungary, and Romania, adds to its geostrategic significance. Many Russian politicians, as well as ordinary citizens, have never been fully reconciled to Ukraine's independence from the Soviet Union in 1991, and feel that the country should be in Russia's political and economic orbit. The U.S. and European view, especially in Central and Eastern Europe, is that a strong, independent Ukraine is an important source of regional stability.

From the mid 1990s until 2004, Ukraine's political scene was dominated by President Leonid Kuchma and the oligarchic "clans" (groups of powerful politicians and businessmen, mainly based in eastern and southern Ukraine) that supported him. Kuchma was elected President in 1994, and re-elected in 1999. He could not run for a third term under the Ukrainian constitution. His rule was characterized by fitful economic reform (albeit with solid economic growth in later years), widespread corruption, and a deteriorating human rights record.

Ukraine held presidential elections on October 31, November 21, and December 26, 2004. The oligarchs chose Prime Minister Viktor Yanukovych as their candidate to succeed Kuchma as President. The chief opposition candidate, former Prime Minister Viktor Yushchenko, was a pro-reform, pro-Western figure. International observers criticized the election campaign and the first and second rounds of the election as not free and fair, citing such factors as government-run media bias in favor of Yanukovych, abuse of absentee ballots, barring of opposition representatives from electoral commissions, and inaccurate voter lists. Nevertheless, Yushchenko topped the first round of the vote on October 31 by a razor-thin margin over Yanukovych. Other candidates finished far behind.

After the November 21 runoff between the two top candidates, Ukraine's Central Election Commission proclaimed Yanukovych the winner. Yushchenko's supporters charged that massive fraud had been committed. Hundreds of thousands of Ukrainians took to the streets, in what came to be known as the "Orange Revolution," after Yushchenko's chosen campaign color. They blockaded government offices in Kiev and appealed to the Ukrainian Supreme Court to invalidate the vote. The court invalidated the runoff election on December 3, and set a repeat runoff vote on December 26. Yushchenko won the December 26 re-vote, with 51.99% of the vote to Yanukovych's 44.19%. After court challenges by Yanukovych were rejected, Yushchenko was inaugurated as President of Ukraine on January 23, 2005. On February 4, 2005, the Ukrainian parliament approved President Yushchenko's appointment of Yuliya Tymoshenko as Prime Minister of Ukraine by

a vote of 373-0. Tymoshenko is a charismatic, populist leader with a sometimes combative political style who campaigned effectively on Yushchenko's behalf. She is a controversial figure due in part to her alleged involvement in corrupt schemes as a businesswoman and a government minister during the Kuchma regime.

The “Orange Revolution” sparked a good deal of interest in Congress and elsewhere. Some hope that Ukraine could finally embark on a path of comprehensive reforms and Euro-Atlantic integration after years of half-measures and false starts. However, subsequent events led to a certain amount of disillusionment among Orange Revolution supporters. Yushchenko’s efforts were hampered by infighting within his governing coalition. In September 2005, Yushchenko dismissed Prime Minister Tymoshenko’s government. The atmosphere between the two leaders was poisoned by accusations of corruption lodged by supporters of each against the other side’s partisans, including over the highly lucrative and non-transparent natural gas industry. The two leaders also clashed over economic philosophy, with Tymoshenko favoring populist and statist methods in contrast to Yushchenko’s preference for a more orthodox free-market approach.

In order to secure support for a new government, Yushchenko then made a political non-aggression pact with his opponent from the presidential election, Viktor Yanukovych, and promised not to prosecute Yanukovych’s key supporters for electoral fraud and other crimes. Some supporters of the Orange Revolution viewed the move as a betrayal of one of the key principles of their movement. Some even began to question whether the new government was better than the old regime, given ongoing government corruption scandals and the perception that the Orange Revolution might be reduced to squabbling over the redistribution of property among the “old” oligarchs and would-be, new “Orange” ones.<sup>1</sup>

On March 26, 2006, Ukraine held parliamentary elections. The largest vote-getter in the elections was the Party of Regions, headed by Yushchenko’s former presidential election rival Viktor Yanukovych. After the failure of protracted attempts to reconstitute the Orange Revolution coalition, the Socialist Party, formerly part of it, changed sides and formed a coalition with the Party of Regions and the Communists, which put forward Yanukovych as its candidate for Prime Minister. Yushchenko reluctantly appointed Yanukovych as Prime Minister, and the Ukrainian parliament approved the new government on August 4, 2006. Yanukovych’s government and the parliamentary majority, led by the Party of Regions, worked steadily to whittle away at Yushchenko’s powers and political influence. The government and parliament removed ministers appointed by Yushchenko and rejected his proposed candidates to replace them. The government refused to implement Yushchenko’s decrees.

Hoping to stem the threat to his power, President Yushchenko dissolved the Ukrainian parliament on April 2, 2007, claiming that the defection of individual members of the opposition to the majority (as opposed to a whole faction) made the ruling majority illegitimate. Prime Minister Yanukovych condemned Yushchenko’s

---

<sup>1</sup> Jamestown Foundation, Eurasia Daily Monitor, September 9, 2005; RFE/RL Belarus, Ukraine, Moldova Report, September 16, 2005.

decree as unconstitutional and called on the government and parliament to ignore Yushchenko's decree and keep working. On May 27, after weeks of political and legal turmoil, Yushchenko, Yanukovych, and parliament chairman Oleksandr Moroz agreed that new parliamentary elections would be held on September 30, 2007, to end the crisis.

According to many observers, this political crisis underlined the fact that the country still needs to make substantial progress in developing a smoothly functioning democracy. The poorly defined separation of powers in Ukraine's constitution has invited conflict and needs to be clarified. Another key problem is the persistence of a post-Soviet political culture in which "winner-take-all" attitudes and unscrupulous tactics take precedence over a genuine respect for the rule of law.

## Current Political Situation

On September 30, 2007, Ukraine held early parliamentary elections. The Party of Regions remains the largest party in the new legislature. It won 34.37% of the vote and 175 seats in the 450-seat parliament. The Yuliya Tymoshenko Bloc, which won 30.71% and 156 seats, is the second largest. Our Ukraine-People's Defense came in a distant third, with 14.15% and 72 seats. The Communist party received 5.39% of the vote and 27 seats. The Lytvyn Bloc was the only other party to reach the 3% vote barrier for representation in the parliament. It won 3.96% of the vote, and secured 20 seats.

These results were not a dramatic departure from the results of the March 2006 election. The Party of Regions lost 11 seats, but its Communist allies gained six. The Our Ukraine bloc lost nine seats. However, its former Orange Revolution partner, the Yuliya Tymoshenko Bloc, gained 27 seats. The Socialists, perhaps

### Ukraine's Main Political Groups

**Party of Regions:** The largest party in Ukraine's parliament. It draws its support from eastern Ukraine, where suspicion of Ukrainian nationalism is high and support for close ties with Russia is strong. It defends the economic interests of powerful oligarchic groups in eastern Ukraine.

**Yuliya Tymoshenko Bloc:** Mainly a vehicle for the ambitions of the charismatic Tymoshenko, it has little ideological cohesion of its own. It is the second largest group in the Ukrainian parliament largely because many Ukrainians see Tymoshenko as the most stalwart defender of the populist, anti-corruption ideals of the Orange Revolution.

**Our Ukraine-People's Self Defense bloc:** The main political group supporting President Yushchenko. It favors free market economic reforms and a pro-Western foreign policy. It draws its support from western Ukraine, where Ukrainian nationalism is strong.

**Communist Party:** Now a shadow of its former self, overtaken by the Party of Regions in its eastern Ukraine strongholds and faced with an aging electorate. It strongly opposes market economics and favors strong ties to Russia.

**Lytvyn Bloc:** A centrist bloc headed by Volodmyr Lytvyn, former top official in the Kuchma regime. Lytvyn has changed sides several times in recent political struggles, backing the side with the upper hand at the moment.

punished by the electorate for betraying their former Orange allies, fell below the 3% and lost all of their parliamentary seats. The Lytvyn Bloc was not represented in the previous parliament, as it fallen below the 3% threshold.<sup>2</sup>

As has occurred in elections since Ukraine became an independent country in 1991, support for the parties was heavily regionalized. The Party of Regions was dominant in eastern and southern Ukraine, but did poorly in western and central Ukraine. Support for the Communists was also concentrated in the east and south. Our Ukraine-People's Self Defense did well in western Ukraine, but poorly in the east. The Yuliya Tymoshenko Bloc is strongest in western and central Ukraine, beating Our Ukraine-People's Self Defense in all districts of these regions but one. The Tymoshenko Bloc is much weaker in eastern and southern Ukraine, but made moderate inroads there as compared to the previous election just over a year earlier, perhaps opening the way to a future as democratic Ukraine's first truly country-wide party.

Negotiations over a new government are underway. According to many observers, the most likely government is a reconstitution of the Orange Revolution coalition between the Tymoshenko Bloc and Our Ukraine, with Tymoshenko receiving the post of Prime Minister. The two parties together would have a narrow majority of 228 seats in the 450-seat parliament. However, given the lack of discipline in Ukrainian political parties, a two-vote majority may not hold. Therefore, the Lytvyn Bloc may be asked to join a Tymoshenko Bloc-Our Ukraine government to bolster its majority. One disadvantage of Tymoshenko's return as Prime Minister is that her uncompromising style may again create friction with Yushchenko and other political players in Ukraine.

While many analysts believe a Tymoshenko Bloc-Our Ukraine-Lytvyn Bloc government is the most likely outcome, others think that Yushchenko's distrust of Tymoshenko (and fear of her rising popularity) may cause him to push Our Ukraine to form a government with the Party of Regions, leaving Tymoshenko in opposition. Indeed, Yushchenko has suggested that the Party of Regions also join the government as part of a broad coalition of major parties. Tymoshenko opposes the idea, and Yanukovych has said that the Party of Regions would not serve in a government that he does not lead. If a Party of Regions-Our Ukraine government is formed, it would likely further disillusion many supporters of Our Ukraine and Yushchenko.

## Economic Situation

After taking office, President Yushchenko vowed to accelerate economic reforms in Ukraine. However, policy disagreements within the government and a balky parliament hampered progress. A government initiative to reprivatize key firms sold to the old regime's cronies at cut-rate prices was mired in conflicting policy statements from Ukrainian leaders (Prime Minister Tymoshenko favored a

---

<sup>2</sup> For the 2007 Ukrainian parliamentary elections results, see the Ukrainian Central Election Committee website, [<http://www.cvk.gov.ua/vnd2007/w6p001e.html>].

much larger reprivatization effort than Yushchenko) and court challenges from the current owners.

Economic growth declined sharply after the victory of the Orange Revolution. Growth in Gross Domestic Product (GDP) was 12.1% in 2004 and only 2.6% in 2005. Yanukovych (who was Prime Minister in 2004) and his supporters pointed to the figures as proof of the failure of the Orange Revolution. Yushchenko's supporters claim that the previous regime "cooked" the 2004 figures to boost its electoral chances. Experts also cite a fall in exports, especially steel, due to decreased international demand and the strength of Ukraine's currency, the hryvnya. The Ukrainian central bank has informally pegged the hryvnya to the U.S. dollar. However, high steel prices and increased domestic demand (including a construction boom) led to an economic revival in 2006, with GDP growing by 7.1%.<sup>3</sup>

Ukraine's consumer price inflation rate increased sharply to 11.6% in 2006, due to increases in utility rates and agricultural prices. Ukrainian wages are increasing rapidly. Average monthly wages were up by over 13% in real terms in January 2007, as compared to the same period in the previous year. However, most Ukrainians remain poor; the average Ukrainian wage is only about \$7 per day, which is about half that of Russia's.<sup>4</sup>

Ukraine's total stock of foreign direct investment (FDI) is low, at \$21.2 billion in January 2007. However, FDI inflows in 2006 doubled, if one excludes the one-time effect of the massive Kryvyi Rih steel complex reprivatization in 2005. Foreign investment has been particularly strong in the banking and insurance sectors.

President Yushchenko and the Yanukovych government battled each other over economic policy, hindering progress on reforms. Yushchenko opposed tax breaks favoring the interests of business groups connected with the government, such as the restoration of special economic zones, which had been used by businessmen connected with the Kuchma regime to dodge taxes. Although both the president and the government favored privatization, they differed on details. Observers have charged that the Yanukovych government reverted to the non-transparent privatization deals of the Kuchma era. The government's will to engage in structural reforms and de-monopolization was also questionable, given its links to powerful business groups. The ruling coalition was able to extend a moratorium on land sales over Yushchenko's veto, with the support of the Tymoshenko Bloc.

## **Ukraine's Foreign Policy**

Until Yushchenko's election in 2005, Ukrainian foreign policy was characterized by an effort to balance ties with Russia with those with the United States and Western countries. President Kuchma and his supporters gave lip service to joining NATO and the European Union, but did little to meet the standards set by

---

<sup>3</sup> Economist Intelligence Unit, Ukraine: Country Report, June 2007.

<sup>4</sup> Economist Intelligence Unit Country Report: Ukraine, April 2007.

these organizations. On the other hand, Ukrainian leaders also promised closer ties with Russia in exchange for Russian energy at subsidized prices, but balked at implementing agreements with Russia that would seriously compromise Ukraine's sovereignty, such as ceding control over Ukraine's energy infrastructure to Moscow.

After taking office as President, Yushchenko put integration into the global economy and Euro-Atlantic institutions at the center of Ukraine's foreign policy. In the short term, his main foreign policy goal is for Ukraine to join the World Trade Organization (WTO). Ukraine has signed bilateral market access market agreements with the United States and other WTO countries and has passed legislation needed to comply with WTO standards. Analysts believe that Ukraine could join the WTO in 2008. In the longer term, Yushchenko wants Ukraine to join the European Union and NATO. Ukraine has sought to retain good ties with Russia, but relations were troubled after Yushchenko took power.

The emergence of the Yanukovych government in August 2006 cast Yushchenko's foreign policy course into doubt. Political conflict between Yushchenko and Yanukovych has caused Ukraine's foreign policy to appear incoherent at times, with the president giving one set of signals and the government and parliament another. In general, Yanukovych and the government were less eager to pursue rapid integration into Euro-Atlantic institutions and more favorable to closer ties with Russia, especially in the economic sphere.

The government formed after the September 2007 parliamentary elections is likely to be more supportive of closer ties to the EU and NATO than the previous one. Yuliya Tymoshenko, the leading candidate for Prime Minister, is likely to focus on economic issues. She has been unenthusiastic about NATO membership for Ukraine, but pushed for closer ties with the EU, leading eventually to membership. Relations with Russia could become more tense, especially over energy supplies.

## NATO

Before the March 2006 parliamentary elections, Ukrainian officials said that they wanted Ukraine to join NATO, after they made progress in military reform and built public support for the move within Ukraine. NATO officials have declined to suggest a timetable for Ukraine's possible entry, stating only that Ukraine needs to make further efforts to professionalize its armed forces, reform its security sector, and fight corruption in order to improve its membership chances. Ukraine currently has an "Intensified Dialogue" with NATO, but President Yushchenko has sought a Membership Action Plan (MAP), a key stepping-stone to joining the Alliance. The MAP gives detailed guidance on what a country needs to do to qualify for membership. However, in August 2006, the Yanukovych government postponed making a formal request for a MAP, saying that more time was needed to educate the Ukrainian public about NATO and for Ukraine and NATO to improve cooperation under existing agreements.

The new Ukrainian government chosen after the September 2007 parliamentary elections may again turn Ukrainian policy in a more pro-NATO direction. However, Yuliya Tymoshenko, the leading candidate for Prime Minister, has not viewed NATO membership among her top priorities. On the other hand, President

Yushchenko and Our Ukraine-People's Self-Defense bloc (a potential partner in a new government), continue to support NATO membership, although they did not emphasize it during the parliamentary campaign. If policies to secure NATO membership move forward, the Party of Regions and the Communists can be expected to try to slow down or block these efforts, including by stirring up anti-NATO sentiment in the eastern and southern parts of the country, as they did during the election campaign. Many public opinion polls have shown that less than one-quarter of the population supports NATO membership at present.

## **European Union**

Ukraine seeks to open talks on an Association Agreement with the European Union. Association Agreements are aimed at preparing a country for eventual EU membership. Many countries in the EU have been cool to Ukraine's possible membership, perhaps because of the huge burden a large, poor country like Ukraine could place on already-strained EU coffers. Indeed, EU officials have tried to dissuade Ukraine from even raising the issue. However, not all EU states are reluctant to consider Ukraine's eventual membership. Poland and the Baltic states have advocated Ukraine's joining the EU, in part because they see a stable, secure Ukraine as a bulwark against Russia. However, even supporters of Ukraine's EU membership acknowledge that it could be a decade or more before Kiev is ready to join, but believe that formal EU recognition of Ukraine's candidacy could speed the reform process in Ukraine.

Ukraine currently has a Partnership and Cooperation Agreement (PCA) with the EU, as well as a Ukraine-EU Action Plan within the context of the EU's European Neighborhood policy. The agreements are aimed at providing aid and advice to assist Ukraine's political and economic transition and to promote closer ties with the EU. At an EU-Ukraine summit in December 2005, the EU announced that it would grant Ukraine market economy status. The move makes it easier for Ukrainian firms to export to the EU without facing antidumping duties.

In March 2007, the EU and Ukraine announced the opening of negotiations on an Enhanced Agreement to replace the current PCA, which is scheduled to expire in 2008. EU officials say that once Ukraine joins the WTO, talks can start on an EU-Ukraine free trade area. The EU plans to spend 494 million Euro (\$658 million) from 2007-2010 to support reform in Ukraine, in such areas as energy cooperation, strengthening border controls, bolstering the judiciary and the rule of law, and addressing environmental concerns.<sup>5</sup>

## **Russia**

Ukraine's most difficult and complex relationship is with Russia. President Putin strongly backed Yanukovych's fraudulent "victory" during the 2004 presidential election campaign and reacted angrily at the success of the Orange Revolution. Russian observers with close ties to the Kremlin charged that the Orange

---

<sup>5</sup> "Commissioner Ferrero-Waldner Announces Substantial Increase in Financial Assistance to Ukraine," EU press release, March 7, 2007.

Revolution was in fact a plot engineered by the United States and other Western countries. For his part, President Yushchenko offered an olive branch to Moscow, calling Russia a “permanent strategic partner” of Ukraine.<sup>6</sup> Nevertheless, relations have been rocky. Russia has been irked by Yushchenko’s efforts to support greater democratization in the region and impose tighter border controls on Transnistria, a pro-Moscow, separatist enclave within neighboring Moldova.

Ethnic Russians make up 17.3% of Ukraine’s population, concentrated in the southern and eastern parts of the country. Moreover, ethnic Ukrainians in these same regions tend to be Russian-speaking, are suspicious of Ukrainian nationalism, and support close ties with Russia. Russian officials have tried to play on these regional and ethnic ties, not always successfully, as demonstrated by the 2004 Ukrainian presidential election.

The most severe crisis in Russian-Ukrainian relations in recent years occurred in January 2006. In 2005, the Russian government-controlled natural gas monopoly Gazprom insisted on a more than fourfold increase in the price that it charges Ukraine for natural gas. When Ukraine balked at the demand, Russia cut off natural gas supplies to Ukraine on December 31, leading also to cuts in gas supplies to Western Europe. The gas supplies were restored two days later after a new gas supply agreement was signed. In early 2007, with the more pro-Russian Yanukovych government in power, Russia and Ukraine agreed to gradually increase the price of Russian natural gas to Ukraine over the next five years, at which time it will reach the world market price.

In early October 2007, just after the Ukrainian parliamentary elections, Gazprom warned Ukraine that it would reduce gas supplies to Ukraine by the end of the month, if Ukraine did not pay its debts to Gazprom. A resolution of the crisis was soon worked out, but some observers took the timing of the move as a warning to Ukraine to expect tough talks over 2008 energy supplies, particularly if Yuliya Tymoshenko returns to power as Prime Minister.

Another issue is the involvement of a shadowy company, RosUkrEnergo, as the nominal supplier of Russian natural gas to Ukraine. Some analysts are concerned about possible involvement of an organized crime kingpin in the company, as well as corrupt links with Russian and Ukrainian officials. The U.S. Justice Department is reportedly investigating the firm.<sup>7</sup> Yuliya Tymoshenko has sharply criticized the presence of RosUkrEnergo as a middleman from the Ukrainian natural gas market. However, if she is elected as Prime Minister, she is likely to meet with stiff opposition from Russia, as well as from those within Ukraine who profit from the current arrangement, if she decides to take action against the firm.

---

<sup>6</sup> Jamestown Foundation, Eurasia Daily Monitor, January 25, 2005.

<sup>7</sup> Glenn R. Simpson, “U.S. Probes Possible Crime Links to Russian Natural-Gas Deals,” Wall Street Journal, December 22, 2006, 1. For background on the gas crisis, see CRS Report RS22378, *Russia’s Cutoff of Natural Gas to Ukraine: Context and Implications*, by Bernard Gelb, Jim Nichol, and Steven Woehrel.

Putin still hopes to achieve Russia's long-standing goal of owning a controlling stake in Ukraine's natural gas pipelines and storage facilities. At present, two-thirds of Russian gas exports to Europe (a critical source of revenue for the Russian government) transits Ukraine. In February 2007, Putin announced that he and Prime Minister Yanukovych had agreed on joint Russian-Ukrainian control of Ukraine's natural gas assets, in exchange for a Ukrainian stake in Russian natural gas fields. However, this statement provoked a strongly negative reaction in Ukraine, and in February 2007 the parliament approved a law banning any transfer of control of the pipelines by a vote of 430-0. Through its role in RosUkrEnergo, Russia also appears to be seeking control over Ukraine's domestic natural gas infrastructure. Russia is also working on developing energy export routes through the Baltic Sea and the Balkans to western Europe that could bypass Ukraine, at least in part. If successful, these efforts could reduce Ukraine's leverage over Russia on energy issues.

## **U.S. Policy**

U.S. officials supported the "Orange Revolution" in Ukraine in late 2004 and early 2005, warning the former regime against trying to impose fraudulent election results, and hailing Yushchenko's ultimate victory. President Yushchenko visited the United States from April 4-7, 2005 and had meetings with President Bush and Secretary of State Rice. Yushchenko's address to a joint session of Congress on April 6 was interrupted by several standing ovations. U.S. officials have remained upbeat about Ukraine's successes in some areas, such as adopting legislation needed for WTO membership and in improving media freedom, while acknowledging difficulties in others. Administration officials also praised Ukraine's efforts to hold a free and fair parliamentary election on March 26, 2006.

President Yushchenko withdrew Ukraine's troops from Iraq in December 2005, in fulfillment of a campaign pledge, but promised to continue participation in Iraqi troop training efforts. Ukraine has not contributed troops to Afghanistan, at least in part due to bad public memories of the Soviet occupation of Afghanistan in the 1980s.

The United States has taken several steps to upgrade its economic relations with Ukraine. On January 23, 2006, the United States reinstated tariff preferences for Ukraine under the Generalized System of Preferences (GSP). Ukraine lost GSP benefits in 2001 for failing to protect U.S. intellectual property, particularly CD and DVD piracy. U.S. officials hailed Ukraine's efforts in the past year to improve its record on this issue.

On March 6, 2006, the United States and Ukraine signed a bilateral agreement on market access issues, a key step in Ukraine's effort to join the WTO. U.S. officials said that Ukraine committed itself to eventual duty-free entry of U.S. information technology and aircraft products, as well as very low or zero duty on chemical products. U.S. firms will also receive more open access in such areas as energy services, banking and insurance, telecommunications, and other areas. The bilateral agreement also addressed other key concerns such as protection of undisclosed information for pharmaceuticals and agricultural chemicals, imports of

information technology products with encryption, the operation of state owned firms based on commercial considerations, and reduction of export duties on non-ferrous and steel scrap.

The Administration has approached the issue of NATO membership for Ukraine with some caution. During an April 4, 2005 press conference with Yushchenko, President Bush said, “I’m a supporter of Ukraine becoming a member of NATO. I think it’s important.” But he warned that Ukraine’s NATO membership “is not a given,” noting that Ukraine has to make reforms before it can join the Alliance.<sup>8</sup> If the United States decides to strongly advocate Ukraine’s NATO membership in the near future, it would likely have to cope with Moscow’s strident opposition, as well as tension with several European NATO allies more eager to accommodate Moscow on the issue.

The Administration was sharply critical of Russia’s behavior during the January 2006 natural gas standoff between Russia and Ukraine. State Department spokesman Sean McCormack criticized Russia for using “energy for political purposes.” He stressed that while the Administration supported a gradual increase in prices to market levels, it disagreed with a “precipitous” increase and cutoff. Secretary of State Condoleezza Rice likewise on January 5 stated that Russia had made “politically motivated efforts to constrain energy supply to Ukraine.”<sup>9</sup> In May 2006, Vice President Dick Cheney characterized Russia’s energy policy toward vulnerable countries as “blackmail” and intimidation.<sup>10</sup> The United States has favored helping Ukraine and other countries reduce their dependence on Russian energy supplies. The United States advocates the building of multiple means of supplying energy from Central Asia and Azerbaijan to Europe, including a pipeline from the Ukrainian oil terminal at the port of Odesa to Brody, on the border with Poland.

The Administration responded positively to the formation of the Yanukovych government in August 2006. After Yanukovych took office, a State Department spokesman said that the United States would work with the new government, given that it came to power in a democratic way. U.S. officials called on Ukrainian leaders to resolve peacefully the political crisis caused by President Yushchenko’s April 2, 2007, decree dissolving parliament and calling new elections. The State Department issued a statement welcoming the May 2007 agreement to hold early parliamentary elections on September 30, 2007 as demonstrating the “resiliency of Ukrainian democracy,” but stressed that the country still needed to clearly define the roles of the executive, legislative, and judicial branches of government.

U.S. officials said they agreed with OSCE assessments that the September 30, 2007 parliamentary elections were conducted mostly in line with international

---

<sup>8</sup> Transcript of President Bush’s press conference with President Yushchenko, April 4, 2005, from the White House website, [<http://www.whitehouse.gov>].

<sup>9</sup> The State Department. Statement, January 1, 2006; Daily Press Briefing, January 3, 2006; Secretary Condoleezza Rice, Remarks at the State Department Correspondents Association’s Breakfast, January 5, 2006.

<sup>10</sup> “Vice President’s Remarks at the Vilnius Conference,” May 4, 2006, from the White House website [<http://www.whitehouse.gov>].

standards. They called on Ukraine's leaders to move quickly to form a government and that the United States was ready to work with any new government that reflects Ukraine's democratic choice.

## Congressional Response

During the Ukrainian presidential election campaign and during the ensuing electoral crisis, the 108th Congress approved legislation calling for free and fair elections in Ukraine and urged the Administration to warn Ukraine of possible negative consequences for Ukraine's leaders and for U.S.-Ukraine ties in the case of electoral fraud. The 109th Congress passed resolutions after President Yushchenko was inaugurated. On January 25, 2005, the House passed H.Con.Res. 16 and the Senate passed S.Con.Res. 7 on the 26th. The identical resolutions included clauses congratulating Ukraine for its commitment to democracy and its resolution of its political crisis in a peaceful manner; congratulating Yushchenko on his victory; applauding the candidates, the EU and other European organizations and the U.S. Government for helping to find that peaceful solution; and pledging U.S. help for Ukraine's efforts to develop democracy, a free market economy, and integrate into the international community of democracies.

Congress has also dealt with the issue of U.S. aid to Ukraine. The FY2005 Iraq-Afghanistan supplemental appropriations bill (P.L. 109-13) provided \$60 million in aid to help the new government in the run-up to the March 2006 parliamentary election. Including funds appropriated in FY2005 foreign operations appropriations legislation, Ukraine received \$156 million in U.S. assistance in FY2005.

The FY2006 foreign operations appropriations legislation (P.L. 109-102) provided \$84 million in Freedom Support Act (FSA) funds to promote reforms in Ukraine. Five million of that amount was earmarked for nuclear safety initiatives and \$1 million for mine safety programs in Ukraine. Total FY2006 U.S. aid to Ukraine was \$100.1 million. In addition to Freedom Support Act funds (\$82.16 million were actually allocated in FY2006, according to the Administration), Ukraine received \$2.18 million in Child Safety and Health (CSH) funds; \$10.89 million in Foreign Military Financing (FMF); \$1.75 million in IMET military training funds; and \$3.1 million in NADR funding to fight terrorism and proliferation.

Congress did not pass an FY2007 foreign operations bill, instead approving a continuing resolution (P.L. 110-5). The Administration estimates FY2007 funding for Ukraine at \$94.89 million. This includes \$80 million in FSA funds; \$9.5 million in FMF; \$1.86 million in IMET; \$2.1 million in NADR funding; and \$2.17 million in the CSH account.

For FY2008, the Administration requested \$84 million for Ukraine. The request included \$71 million in FSA funding, \$9 million in FMF aid, \$1.9 million in IMET funds, and \$2.1 million in NADR anti-terrorism and non-proliferation aid. The committee report for the House-passed State-Foreign Operations appropriations bill (H.R. 2764) recommended \$77 million in FSA money for Ukraine and urged continued U.S. support for economic reform, democracy-building, and health issues such as HIV/AIDS. The committee report for the Senate-passed version of H.R. 2764 recommended \$72 million in FSA funds for Ukraine.

U.S. aid to Ukraine is focused on anti-corruption and rule of law efforts, stopping trafficking in persons, civil society development, energy sector reform, and fighting HIV/AIDS. The United States also seeks to increase exchange programs between the two countries. Other programs include efforts to help Ukraine prepare for WTO membership, encourage the growth of small business, strengthen export and border controls, assist defense reform and interoperability with U.S. and NATO forces. In 2005, the Millennium Challenge Corporation (MCC) selected Ukraine for Millennium Challenge Account (MCA) Threshold status. MCC funding in Ukraine is focused on fighting the country's severe corruption problem. In November 2006, Ukraine was made "compact-eligible" by the MCC board.<sup>11</sup>

Congress dealt with a long-standing stumbling block in U.S.-Ukrainian relations by passing legislation to terminate the application of the Jackson-Vanik amendment to Ukraine, granting the country permanent Normal Trade Relations Status. On March 8, 2006, the House passed H.R. 1053 by a vote of 417-2. It was approved by the Senate by unanimous consent on March 9, and was signed by the President on March 23.<sup>12</sup>

Congress has expressed support for Ukraine's possible membership in NATO. The NATO Freedom Consolidation Act was passed by the Senate on March 15, 2007, and the House on March 26. The bill (S. 494) expresses support for further enlargement of NATO and authorizes U.S. aid to Ukraine to assist it in preparing for possible NATO membership. President Bush signed the bill into law on April 9 (P.L. 110-17).

On April 17, 2007, Representative Hastings introduced H.Con.Res. 116, which called on all sides in Ukraine's political crisis to solve the issue peacefully and in accordance with the rule of law. The resolution reaffirms U.S. support for Ukraine's transition to democracy and a free market economy, as well as for the country's independence, sovereignty, and territorial integrity. A Senate version of the resolution (S.Con.Res. 30) was introduced by Senator Dodd on May 2. On July 23, Mr. Hastings introduced H.Con.Res. 189, which called on Ukrainian leaders to abide by the May 27 agreement to hold new parliamentary elections, and to hold those elections in accordance with OSCE standards.

On September 21, 2007, the Senate passed S.Res. 320. The resolution expresses hope that Ukraine will hold its September 30 parliamentary vote in a way that is consistent with OSCE standards, urges Ukrainian leaders to work together to solve Ukraine's problems, and pledges continued U.S. friendship for and assistance to Ukraine. On October 4, Mr. Hastings introduced H.Res. 173, which congratulated Ukraine on conducting the September 30 elections in accordance with OSCE standards and pledging continued U.S. support for Ukraine's efforts to achieve a democratic political system, a free market economy, and full integration with the West.

---

<sup>11</sup> FY2008 Congressional Budget Justification for Foreign Operations, from the State Department website, [<http://www.state.gov>].

<sup>12</sup> CRS Report RS22114, *Permanent Normal Trade Relations (PNTR) Status for Ukraine and U.S.-Ukrainian Economic Ties*, by William H. Cooper.